

Sales and Use Tax Legislative Changes for 2004

The 2004 Virginia General Assembly enacted several important legislative changes to the sales and use tax that will be effective in 2004 and 2005. Key provisions are summarized below.

Effective July 1, 2004:

- The initial purchase of telephone calling cards is subject to Virginia sales tax effective July 1, 2004. The charges for renewal or for additional minutes purchased subsequent to the initial purchase are not subject to the tax. Such cards are not subject to any other state and local utility taxes.
- Three existing exemptions were extended:
 - Textbooks and other educational materials distributed free to educators;
 - Tangible personal property used in the production of audiovisual works;
 - Printed materials purchased by advertising businesses distributed outside Virginia.

The sunset date of each of these existing exemptions was extended to June 30, 2008.

- Several technical amendments were made to the new sales and use tax exemption process scheduled to go into effect July 1, 2004.
 - Churches may continue to use their self-issued exemption certificate instead of applying for a new exemption under the “new process” (enacted during the 2003 General Assembly). Churches using the self-issued exemption certificate will be entitled to the sales tax exemption accorded under current law.
 - From July 1, 2004 through June 30, 2006, nonprofit organizations that provide rescue or firefighting services, but do not hold an exemption from federal income taxation, will be eligible for a sales tax exemption under the new process.
 - The exemption from collecting sales tax on fund-raising sales currently enjoyed by certain organizations is grandfathered. This exemption is now available to any other organization that is within the same class of organization of any entity that was exempt from collecting sales and use tax on June 30, 2003.
 - The Department of Taxation may refuse to grant exemption certificates to applicants that fail to disclose their total taxable purchases for the preceding year.

Effective September 1, 2004:

- The state sales and use tax rate on sales of non-food items increases from 3.5% to 4%, effective September 1, 2004. This change will result in a combined state and local tax rate of 5%. The new tax rate for vending machine sales will be 6%.
 - The increased tax rate applies to all sales on and after September 1, 2004. Tangible personal property delivered to a purchaser and paid for on or after September 1, 2004 is taxable at the 5% rate, regardless of when the property was ordered. The increased rate will not apply to tangible personal property delivered prior to September 1, 2004, but paid for on or after September 1, 2004. The increased rate also will not apply when a taxable sale or lease payment is

paid for in full prior to September 1, 2004, even though delivery may occur on or after September 1, 2004, or the paid-in-full lease payment covers a lease period beginning on or after September 1, 2004. For detailed information, refer to the Virginia Retail Sales and Use Tax Rate Increase Guidelines.

- o Because of the rate change, the factors for computing the dealer's discount on Virginia sales and use tax returns will also be changed, as shown below:

Total Monthly Sales from All Locations		Dealer's Discount Rate
Is at least	But less than	
\$0	\$62,501	.0300 (Vending Machine .0320)
\$62,501	\$208,001	.0225 (Vending Machine .0240)
\$208,001		.0150 (Vending Machine .0160)

Note: The dealer's discount factors are provided to simplify the computation of the dealer's discount. By law, the dealer's discount is allowed on the first 3% of the state sales tax. Use of these factors simplifies the computation of the dealer's discount, while it preserves the full amount of discount allowed under the law.

- o The Department of Taxation will mail revised returns to affected sales and use tax filers early in September. Returns for June, July, and August 2004 are not affected by the change and should be filed on the preprinted coupons normally used. Monthly filers should use the new returns to file for periods beginning with the month of September 2004. Quarterly filers should begin using the new forms for the quarter ending September 30, 2004. Because the rate change occurs on September 1, in the middle of the quarter, a worksheet will be provided to assist quarterly filers in computing the tax for the quarter ending September 30, 2004.
- o Dealers who compute the tax manually will need to use the 5% Sales Tax Table beginning September 1, 2004. Card stock copies of the table can be ordered from our Forms Line at (804) 440-2541.
- Effective September 1, 2004, the exemption available to most public service corporations will be repealed. Purchases of tangible personal property by electric, gas and water utilities, telecommunications companies, and motor vehicle common carriers will no longer be exempt. Railway common carriers will retain the exemption.

Effective July 1, 2005:

- The current state tax rate of 3 % for sales of food for home consumption remains in effect through June 30, 2005. On July 1, 2005, the state tax rate on food will decrease to 2.5%, resulting in a combined tax rate of 3.5% (2.5% state tax and 1% local tax). Additional reductions of 0.5% each are planned for July 1, 2006 and July 1, 2007. The new law affects only the rate of tax; the definition of "food for home consumption" has not been changed.

In the coming weeks, we will post details on these changes, including guidelines, revised returns, instructions for lease transactions, transitional rules and other legislative changes for 2004. Please check back for updates!